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## **VITASTREAM BUSINESS PLAN**



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## **1 Executive Summary**

The dog food market has an interesting future potential because two major trends will give room for innovators and market shapers. “Anthropomorphism” or the humanisation of dogs and, as a consequence, the premiumisation of dog food create opportunities for a substantial market extension in the coming years. When it comes to pets and especially to dogs, drinks have been one-size-fits-all for far too long. VitaStream will turn the worldwide pet care market upside down. This new product is a unique and innovative water-enhancer for dogs, one squeeze into the water bowl adds just the right amount of vitamins, minerals and amino acids to the water and gives it a delicious flavour. VitaStream provides its customers with an easy solution for their desire to individually care for their pets. With the new water enhancer they can create healthy and flavourful drinks for their dogs according to individual needs and tastes. Nowadays dog-owners are asking for premium, high quality and distinct beneficial products, a trend this product exactly meets. It provides functional health benefits and outstanding quality: it is healthy but tasty. A dog-owner population of over 1 million dogs is constantly seeking for the best nutrition for their beloved pets, which have become a focal point in their daily lives. Dog-owners are open-minded and deeply caring. Two target groups are identified: Young owners aged between 18-35 and elderly owners aged between 50-65, who share equal values for the dogs. The production costs are 1,08 and the product, which comes in three different flavours, will be initially sold online for a price of 4,99 €. The product will be launched in the B2C channel in August 2016, B2B business will take-off one year later with a premium partnership with Fressnapf. The project will need an initial equity of 100.000 €, to produce the product, launch it online and to invest in performance marketing. An additional investment of 250.000 is required after the first year to prepare the road for the B2B business. VitaStream is expected to break even at the end of 2017, generating a positive

CF of 739.641 EUR.

## **2 VitaStream**

The idea for VitaStream was born on a long office night at Döhler group, a leading natural ingredients producer, located in Darmstadt, Germany. The two founders, Anton Koehler and Daniel Eickhorst, are working on an evolving trend in the human beverage and food industry: Water-enhancers. They gave an extra consideration to a non-human market segment and realized that, when it comes to pets and especially dogs, drinks have been one-size-fits-all for far too long. A unique portfolio of dog water-enhancers was created in the time following. The eye-catching brand logo (**Appendix 1**) represents the company's corporate identity and is highly recognizable as well as adaptable for future growth markets. Furthermore, the excellent use of synergies within the company in terms of management and suppliers predicts a successful perspective for market launch and sales development.

### **2.1 Product**

VitaStream water enhancer is the first product of its kind and creates a new segment in the dog food market: liquid beverages and beverage enhancers for dogs. It gives the dog owner the power to customize and create the drink of its dog's dreams, providing a burst of healthiness, without sugar and calories, at the same time. A simple squeeze of the concentrate into the water bowl adds just the right amount of vitamins, minerals and amino acids along with a delicious flavour. In addition to its health benefits it also increases the palatability of the dog's drinking water due to flavour reasons. The easy-to-use enhancer is made out of the highest quality ingredients and natural flavours. It has no chemical or artificial additives (**Appendix 2**).

## 2.2 Founder

**Anton Koehler (28) – M&A Manager at Döhler Group:** Anton is responsible for the M&A activities and investments of the company. Since he is the leading advisor for investments in start-up companies of the group, he has obtained substantial expertise in the Food & Beverage arena. He is especially familiar with online-focused business models. His key strengths are his strong entrepreneurial spirit, his creative approach and out-of-the-box thinking as well as his strong people skills.

**Daniel Eickhorst (39) – Head of Tax & M&A at Döhler Group:** He is the perfect counterpart to his rather creative and free-minded co-founder Anton. His long-time experience in leading management positions especially in accounting and taxation complements the creative approach of his colleague in a perfect way. His key strengths are an outstanding analytical capacity, his ability to provide financial solutions to complex economical problems as well as strong negotiation skills.

The merge of exceptional expertise in management and finance, together with a perfect feeling for start-up cultures makes Daniel and Anton an excellent founding team with a faith for future success. As a team within Döhler they can rely on the group's premium quality and extremely experienced supplier skills.

## 2.3 Supplier

Döhler Group will produce and supply the unique concentrate for the dog water-enhancer. As a global producer, marketer and provider of natural ingredients, ingredient systems as well as integrated solutions for the food and beverage industry, Döhler obtains a market leader position in the growing ingredients' market. Its portfolio of customers includes all major players of the respective industries. Döhler is especially successful in the fast evolving liquid food

and beverage enhancer market. Providing outstanding integrated services and solutions for their customers.<sup>1</sup> From the idea to the supermarket shelf they are a key factor in the road to success of VitaStream.

The final product will be produced, packed and shipped from Hertland Food Product Group Europe. Similar to Döhler Group, HFPG Europe has expertise in liquid water-enhancer, particularly in the production and fulfilment process. HFPG Europe relies on an IP-protected bottling technology, which makes them market leader in the segment.<sup>2</sup> VitaStream takes advantage of existing supply chains, outsources the production to keep fixed costs as low as possible, concentrating on their key skills in management.

### **3 External Audit**

Before the product launch the pet care market and more specifically the dog care market have to be analysed. Its distinctive opportunities for a brand like VitaStream have to be clearly identified. A strong focus will be placed on the German market as it represents the entry market for the product.

#### **3.1 Industry and Market Analysis**

VitaStream will enter the German pet care industry, more specific the dog food section<sup>3</sup>. Germany was chosen as entry market due to two strong reasons: (1) The founders home market with deep knowledge about the German end-consumer and (2) the opportunities with respect to size and purchasing power of this market:

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<sup>1</sup> Döhler Group (2015).

<sup>2</sup> Hertland Food Product Group (2015).

<sup>3</sup> Euromonitor (2014).

*“The German’s spend more on their dog than on their baby”<sup>4</sup>*

In general the pet population in Germany has shown a continuous growth over the past years and further growth in future years is likewise anticipated. Germany has a dog population of approximately 5,4 million, in other words 15 % of German households have at least one dog.<sup>5</sup> Current and future demographic changes, such as decreasing birth rates and increasing numbers of single household will foster the growth of dog and overall pet populations. From an economic point of view the expenditure of the German population on their beloved dog represents 0,2 % of their yearly GDP.<sup>6</sup> What seems on first sight a small number is actually another undeniable indicator of the enormous size and potential of the dog care market in Germany. The dog food market represents a market value of 1.2 billion Euro. Until 2019 the expenditure of German consumers for dog food is anticipated to reach 1.3 billion Euro. Regarding the market structure, we look at only three segments: 1. Dry dog food; 2. Wet dog food; 3. Treats & mixers, of which the latter one is the biggest in terms of overall value. The segment of “treats and mixers” is anticipated to grow from 0,44 billion to 0,46 billion by 2019, which represents a CAGR of 0,7 % and thus is a strong growth vehicle for the dog food market (**Appendix 3**). The competitive landscape in the market and the respective distribution of market shares shows interesting characteristics. The clear market leader is Mars Deutschland with a value share of 32%. None of the competitors is likely to catch up soon. Together with Nestlé Purina Petcare and Fressnapf Group GmbH, the top three players lead the market with a combined value share of more than 50 % of the market. The second half of the market however, is strongly fragmented. Most of these players do not exceed 2% market share (**Appendix 4**).

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<sup>4</sup> Der Tagesspiegel (2014).

<sup>5</sup> Mars Heimtier-Studie Deutschland (2013); FEDIAF; ZZF; IVH.

<sup>6</sup> Heimtierstudie „Wirtschaftsfaktor Heimtierhaltung“ (2014).



### 3.2 Industry Trends

Anthropomorphism<sup>7</sup> or the humanisation of dogs is the prevalent trend in the industry and is very likely to even intensify over the next years. Numerous studies examining the dog-human relation- and companionship have been published over the last decades until recently. They all conclude that, not only has there been a shift in the perception of dogs from usage animals to highly valued, fully integrated family members but moreover, dogs are treated as human substitutes nowadays.<sup>8</sup> Furthermore the companionship of animals and especially dogs has been proved to have positive benefits to their owner's health and psychological as well as social wellbeing.<sup>9</sup> Thus, society highly values the dog and has created an important role for him in everyday life. Clearly, the pet-human relationship affects the owner's consumption values and purchase decisions. According to researchers, the higher the attachment the more likely the owner will buy non-essential and rather luxury goods for their dogs.<sup>10</sup> The change in the dog's role in society has led to tremendous changes in consumer behaviour and is a sales-driver for high quality products for dogs. Quality is seen in added values such as therapeutic or functional features in dog food. These features are highly valued which can be retraced in recent consumer spending on dog's health and wellbeing. The "premiumisation" of dog food and products shaped the market in 2013/2014.<sup>11</sup> As a consequence, demand for highly sophisticated natural as well as organic dog food solutions is strongly rising and expected to continue evolving. Economically speaking, these trends will produce steady growth in volume as well as in values of sales for products in the functional dog food range<sup>12</sup> (**Appendix 5**).

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<sup>7</sup> The attribution of human traits, characteristics, needs and/or emotions to other animals including pets.

<sup>8</sup> Serpell, J.A. (2003); Hirschmann E.C. (1994).

<sup>9</sup> Heimtierstudie „Wirtschaftsfaktor Heimtierhaltung“ (2014).

<sup>10</sup> Chen et al (2012).

<sup>11</sup> Euromonitor b (2014).

<sup>12</sup> Euromonitor c (2014).

The undeniable transformation in the dog-owner-relationship has opened up the market for innovative and functional products, which are expected to perform well and provide a promising market outlook for VitaStream water enhancer. Secondary the described market structure seems to give room for a new premium player in the market, especially with respect to the immature segment of dog beverages.

### **3.3 Competitors**

Today VitaStream is not facing any direct competitors in Germany or the global markets. The product category of dog water enhancer or even healthy liquid beverages does not yet exist in the dog food market. However, due to the described trends there is a slowly evolving product category of dog beverages, which are important to mention in a broader landscape of future possible competitors. Worldwide there are very few producers of bottled flavoured water for dogs but their attempts have no industrial scope or higher professional ambition. In addition, these flavoured dog waters are positioned as fashionable treats instead of healthy nutrition solutions and are thus not meeting the modern trend of the industry. Recent years have seen some launches of luxury dog beverages - products like wine or beer for dogs – which have created an interesting category of fancy dog beverages, meeting the trend of anthropomorphism. But again, these products are designed as treats for dogs and have no life-improving benefit. In contrast to these VitaStream is highly innovative as it combines health and flavour issues. As a new product it does not face any serious competition in the short-term-perspective.

## **4 Market Opportunities/Potential**

In a first step a qualitative research consisting of 18 in-depth interviews was conducted. Followed by a quantitative online survey with more than 310 participants based on the findings

of the qualitative research, in order to quantify the results of the qualitative analysis and optimize the product.

#### **4.1 Qualitative Research**

The qualitative research had three explicit aims: (1) Understand the dog-owner relationship as well as respective behavioural patterns, (2) discover main drivers of consumption decisions and (3) conduct a first product concept test.

A total of 18 semi-structured in-depth interviews with dog owners of all ages were conducted (**Appendix 6**). Three pre-designed age segments (18-40, 41-60, 60+ years) were formed and six interviewees per segment shared insights on their daily lives with their dogs, their behavioural patterns, their consumer habits and their preferences and values with respect to their dog's nutrition. Towards the end of the interview two differing product concepts, "Lifestyle" and "Health" were presented in a changing order. The "Lifestyle" concept focused on the taste of the product and its emotional benefits, whereas the "Health" concept strongly focused on the functional health benefit (**Appendix 7 & 8**). Clearly, the in-depth interviews helped to better understand habits and routines related to dog ownership and to identify needs and preferences of possible future consumers. One major finding of the qualitative analysis was, that the majority of dog owners did not appreciate the claim "your dog will love you" as a resulting benefit from the product. Rationally they want to be loved by their pet without "paying" for it. However, it is questionable if on a rather emotional and subconscious level they might still value the possibility to bond even stronger with their beloved pet, by using VitaStream. Concerning the concepts it became apparent across all age segments that the "lifestyle" concept will most likely be rejected by the consumers as it does not create value for the modern dog owner, who is focussing on a natural, holistic and most important func-

tional nutrition being high in quality (**Appendix 9**). As a result, the “Lifestyle” concept was abandoned and a focus on “health” as the leading product concept was decided. The health concept was then extended and a product line with three product variations – “Original”, “Senior” and “Fit” – was drafted and tested. Each product variation was planned to trigger different needs of the consumers (**Appendix 10**).

## **4.2 Quantitative Research**

Based on the findings of the qualitative research as well as the initial market analysis an online survey was developed. With the explicit aims to: (1) quantify the findings on dog-owner relationship and (2) identify the target consumer and the variables influencing its consumption decision and (3) acquire feedback on the new health concept and its variations.

The reactions to the product were very instructive. In a 5-item Likert Scale, 22% of all 288 respondents who own a dog, rated that they would purchase a product like VitaStream. Recapitulating that the dog population in Germany has a size of 5,4 million, the product enters a market with a possible size of over 1 million customers. Additionally, 19 % of the respondents were undecided whether they would buy the product or not. This represents another substantial target potential for the product. With clearly directed and targeted marketing activities, these 19% could be shifted towards the two top boxes. 61 % of the respondents were completely opposed to the idea of a dog water enhancer. They were sceptical and doubting the sense and benefits of the product. However, this is not surprising as we are speaking about an innovative product in a new and immature segment of the dog food market (**Appendix 11**).

When explicitly concentrating on the three possible variations of the product line the research results give a clear direction. “Original” and “Senior” are the two most appreciated varieties

and represent a willingness to purchase of respectively 22% and 25 % (**Appendix 12 & 13**). The variety “Fit” was considered to have no key characteristic the dog-owner would appreciate and to be too close to the “Original” version. All product-likers stated that their dog-owner relationship is very close and that a joint lifestyle exists. Their relationship is mutually beneficial, as both dog and owner, benefit from being together and sharing their lives. The dog obtains a very important role in the life of its owner (**Appendix 14**). In economical terms, these respondents are willing to spend 6 € for a water-enhancing product (**Appendix 15**) and would feed it to their dogs occasionally to often (**Appendix 16**). The respondents willing to purchase the product represented a cross-section of all kinds of educational degrees with a slight majority in the middle class sector only possessing a high school or lower (**Appendix 17**). As a final and important remark on the research result, it became clear that in case a dog has a tendency to dehydration (which is a normal phenomenon with older dogs), VitaStream would be a preferred solution even for those respondents that opposed the product.

## **5 Strategy**

A SWOT analysis was conducted in order to identify key strategic implications for VitaStream (**Appendix 18**).

### **5.1 Objectives**

Both, short-term and long-term goals of VitaStream brand strategy should be specific and measurable in order to assess the necessary investments and future potentials.

**Short-term objectives:** The creation and expansion of the liquid dog beverage segment and the establishment of VitaStream as the market leader in this segment. It will be a key chal-

lenge to educate the end-consumer as well as the retailers about the relevance of the segment and create awareness for VitaStream and its product. This is an ambitious but reasonable goal, as the product will have to shape a new market segment. Word-of-mouth will foster the appearance of VitaStream as the new innovative dog food brand. The creation of an online customer base, with a constant share of returning customers of 25 % and at least one re-order per quarter must be one of the main sales targets in the first two years. Furthermore, a successful listing in all German Fressnapf stores is a distinct objective. Clearly, on a short-term perspective, the success of VitaStream will be highly influenced by the ability to develop the overall segment, enter the market through valuable distribution channels and capture a substantial market share of the segment. As there is no liquid dog beverages segment existing, consumer switching from competitors to VitaStream will neither be an objective nor an obstacle.

**Mid-term objectives:** In the B2B business a 100 % penetration rate in the retailing chain Fressnapf, as well as a sustained retail margin of 35 % are the two major objectives to become and stay profitable. Concerning the B2C business, it will be crucial to expand the customer base and create a respective brand community, leading to constant re-purchases per quarter. The thoughtful development of the online product portfolio will lead to a higher average shopping cart number, aiming at an average factor of three units per purchase. Overall it will be important to successfully position the brand against entering competition and capture a sustainable market share. In order to reach these ambitious goals VitaStream will need to grow quickly, and secure sufficient funds to finance the cash-loss-generating build-up phase.

**Long-term objectives:** A realization of a product line extension to different companion ani-

mals such as cats as well as the internationalization will be a key success factor for VitaStream in the future.

## 5.2 Issues

Several issues might be interfering with the ambitious objectives mentioned above. A strategic anticipation of possible solutions is indispensable.

**Distribution:** An early de-listing or even worse an initial non-listing of Fressnapf would most likely lead to the abandonment of the entire offline retailing channel. Such a worst case-scenario would inquire major changes in the overall cost structure of the financial planning. The human capital costs have to be reduced and the B2B marketing budget has to be wisely re-allocated to the B2C channel. A possible solution is to strongly invest into and thus boosting the online channel to gain relevance and strengthen the negotiation leverage of VitaStream, so that a listing becomes possible for later years. A success without a B2B business is doubtful as offline retailing represents an overwhelming portion in the overall dog food segment<sup>13</sup> and a preferred purchase channel for VitaStream customer (**Appendix 19**).

**Competitors:** There are clear indicators that the market will quickly adapt to the innovation and that big players as earlier described will enter the market with their own water-enhancing concentrates or water drinks for dogs. Nestlé U.S. already issued a patent for the American market regarding liquid water enriching formulas and concentrate, increasing the palatability and healthiness of water for pets<sup>14</sup>. A successful and early market entry of the big players, who are obtaining a combined market share of 50% of the entire dog food market, will pressure VitaStream due to their expertise and credibility in the market. The implementation the

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<sup>13</sup> Euromonitor b (2014)

<sup>14</sup> International Publication Number and Date: WO 2014/071276 A1 (08.05.2014)

recommendation of veterinarians as brand ambassadors would tackle this issue, as many dog owners would follow the recommendation of veterinarians. A major threat would be the price-driven entry of a white-label producer such as Saturn Petcare into the segment. Hence it is crucial to build up a powerful brand with a strong perception by the consumer. Despite being an issue, the patent of Nestlé for the American market is another proof that the world is ready for VitaStream. It is a strong indicator that the market potential is not only existing but also evaluated to be very profitable.

**Product Life Cycle Theory:** Even if a product offers a high value to its customer, negative reactions against innovative products like VitaStream water-enhancer would not be surprising. According to the product life cycle theory<sup>15</sup>, only 15 % of the consumers (innovators and early adopters) are willing to take the risk of trying new products. The majority of consumers is distinctively more risk-averse and is relying on the recommendation of others to try a new product. This problem calls for different management strategies to convince potential customers to try and finally adopt the product (**Appendix 20**).

### **5.3 Segmentation and Targeting**

After the first desk research and prior to the qualitative and quantitative study, the market was segmented by age in three major groups, each representing a different life chapter of the dog-owner with diverse needs and focuses. The first segment (20-35) embodies the young modern generation - men and women who postpone life decisions such as marriage and parenthood to their early thirties, but often enjoy already long-term relationships, while owning their first dog. The second segment (35-50) represents the married couple with kids still at home where the dog is an explicit family member. The last segment represents all dog-

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<sup>15</sup> Everett, R. (2003)



owners older than 55. This latter group's characteristic is often a life-changing phase, transforming from working to retirement, kids moving out of home, dedicating time and emotion to the dog.

The conducted research made clear what was already anticipated in an earlier phase of the business plan: The product is appealing to two major segments and the market should be targeted accordingly (**Appendix 21**).

**Target 1: the “young modern generation”.** This target group includes men and women aged 20-35, owning a dog for their first time. Especially for dog-owners in the upper age range of the segment, the dog represents a first attempt to “raise” a human being as couple. Hence, a strong focus is put on the dog in daily-life. This group is willing to sacrifice a major part of their personal expenditures for their dog. Moreover, these group representatives are keen to try out innovative products due to their young and modern spirit. But already in this rather younger segment, the quality and the origin of the product is a key driver for success.

**Target 2: “the modern seniors”.** This group represents basically the opposite of target group 1, namely dog-owner ranging from 50-65, mostly women, whose children start to move out or are already proceeding with their own lives. These dog-owners have plenty of free time and love to dedicate it to their beloved dog. The dog is a clear family member and is occasionally even valued as an additional child. With respect to economical issues, this group is wealthy and will buy products like VitaStream, because its representatives value a holistic and organic diet for their dog. As in the other segment the quality and origin of the product is a key success driver.

Both targets share common characteristics, such as the demand for high quality, premium

natural as well as beneficial food (**Appendix 22 & 23**). Additionally they share the same appreciation for the dog. To summarize: VitaStream targets open-minded dog-owners, who deeply care about their dogs, have a conscious attitude towards their dog's nutrition and highly value quality. Dog and owner share a joint-lifestyle and the dog is taken along for meetings and travelling as often as it possible. Owners with all kinds of dogs, small to bigger size and every breed are targeted. Furthermore, both targets have an average monthly spendable income between 2000-3000 € (**Appendix 24**).

## 5.4 Positioning

*“When you try to be everything you wind up being nothing”<sup>16</sup>*

An explicit positioning of VitaStream and its water-enhancer has been created. Throughout the conducted survey and especially in the in-depth interviews, key variables influencing the selected targets decision-making were revealed. Based on these findings the positioning of VitaStream water-enhancer follows the customer-based positioning approach.

VitaStream water-enhancer will be positioned in the dog beverage segment within the dog food category as a premium product, made out of high quality as well as natural ingredients. It provides the consumer with the emotional benefit and value of customizing its dog's drinks to its individual needs, thus maintaining the dog healthy as well as happy and committing affection to the pet. There is a strong functional benefit, because dogs using VitaStream do not suffer from a lack of nutrition and will stay perfectly hydrated. Price position can be premium according to these product values. Attributes such as the unique packaging, a 100 % recyclable bottle with a secure and innovative no-spill click closure system maintain the outstanding convenience of the product and enhance the positive high image of the product in

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<sup>16</sup> Ries A. & Trout J. (2000)

the consumer's mind. It is essential to position VitaStream as a highly innovative product as it has to open up a new segment in the dog food market. Hence, it is very important that the water-enhancer is not positioned within the treats & mixer segment. A sophisticated positioning - not luxury but premium, not medical but highly nutritious, not a treat but excellent functional food - opens up a window of opportunities to future developments of the brand and its portfolio. Based on the described the positioning statement for VitaStream water-enhancer reads:

*Every dog-owner who wants to provide the best possible nutrition to his/her beloved dog (**target**) should feed VitaStream, the innovative water-enhancer (**frame of reference**), since its unique composition makes the dog healthier and fitter (**POD**), due to its increased water consumption, the high quality ingredients, as well as the added vitamins and the distinctively convenient and high value packaging (**reason to believe**).*

This positioning exactly meets the targets overall core values regarding their dog treatment and nutrition. It provides emotional and functional benefits and thus fully satisfies the needs of the target.

## **6 Marketing Plan**

*“The first company into the mind with a new product or new idea is going to become famous”<sup>17</sup>*

In order to succeed in the rather mature and saturated dog food market in Germany a high level of innovation and a strong focus on consumers needs as well as demands is very important for new products. The key to success in the product's presentation and promotion is

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<sup>17</sup> Ries A. & Trout J. (2000)

to meet the right balance between price, emotion, added value and individualism.<sup>18</sup>

## 6.1 Product

In addition to the introductory product overview, this part will focus on a detailed description of the product, including ingredient composition, packaging, branding and the final product portfolio. Using the insights acquired through the long, intense research process and taking advantage of current market trends the final product reads:

It is a water-based concentrate including flavour and nutritional supplements promoting good health in dogs. The key functional ingredients are: magnesium, calcium, vitamin E, B-12 and D-3 supplements, and zinc sulfate. In the launching phase it will be available in three different flavours: (1) Apple/Carrot, (2) Beef/Pansee, (3) Tuna, made out of natural ingredients to increase the palatability of the water. No artificial sugar will be added to ensure the health benefit of the product. It is produced without any form of soy, grain or milk products and does not create allergies. The water-enhancer does not intervene with a natural and holistic nutrition and it neither induces dog obesity, it rather supports the wellbeing, health and happiness of the dog. One bottle of VitaStream water-enhancer serves 20 servings and does not require any refrigeration (**Appendix 25**).

Not only the product invention, which is truly innovative, also its packaging is a key success factor for marketing and sales. VitaStream comes in a unique, 100 % recyclable bottle with a secure and innovative no-spill click closure system (**Appendix 26**), dispensing just the right amount of concentrate. Due to the innovative composition as a water-enhancing concentrate the product is exceptionally convenient. The container is only 77 mm times 60mm big and fits into every bag (**Appendix 27**). It can easily be used out-of-home but likewise at home.

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<sup>18</sup> Euromonitor (2014)

VitaStream provides its customer with a solution to create drinks for their dogs according to its individual needs and tastes, regardless of the situation they are in.

In case of a successful launch, in a mid-term perspective VitaStream will launch a second product especially positioned for senior dogs lacking a sufficient hydration. Research results indicate, that there is an unsatisfied consumer need for a product to overcome the difficulties forcing older dogs to drink. Consumers are demanding an easy solution, instead of adding homemade oils or brews to the water. As mentioned before, 25 % of respondents, including those being opposed to the overall product idea, stated that they would appreciate a special product for senior dogs. Even though this figure is slightly above the one regarding the basic product, it will not be the first product on the market. Launching a niche product with an even stronger health positioning would narrow the market too quickly and destroy market potential. The goal is to launch the new product “VitaStream Original” together with the B2B lunch Q3 2016.

## **6.2 Place**

Pet specialist retailers and pet superstores are dominating the dog food market in Germany and are representing the most frequently used sales channel.<sup>19</sup> The biggest player in the German market is Fressnapf Tiernahrungs GmbH, Europe’s largest specialty chain for pet food and accessories with 1350 outlets.<sup>20</sup> This fact is supported by the quantitative survey, in which especially the older target group stated to frequently purchase at retailers like Fressnapf. They appreciate the fact that they are able to see, feel and try products first-hand. However the online channel will increase significantly by 2019 and consumers value online

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<sup>19</sup> Euromonitor (2014)

<sup>20</sup> The Fressnapf Group (2015)

access and the high amount of additional information being available.<sup>21</sup> With a brand-owned online shop, the consumer can be educated about nutritional facts related to dogs, the product, its benefits, and other cross selling products such as water bowls and bottles simultaneously to the purchase. Since the successful education of the customer is a key variable to trigger the need for VitaStream water enhancer a corporate website with an integrated online shop is indispensable. Despite the increasing trend to shop pet food online many customers still value personal contact whilst shopping. Thus VitaStream aims for a mixed sales strategy – provide best of both worlds through multichannel strategy: (1) B2C Online with a company owned online shop and after the first year additionally (2) B2B through a premium partnership with Fressnapf.

### 6.3 Price

Research has shown that the price will not be the most sensitive issue of the market entry strategy. In other words it will not be a severe obstacle in the consumption decision of the target. Nevertheless, it is extremely important to define a fair and consistent price level. To identify a profitable but still acceptable price, COGS<sup>22</sup> and the willingness to pay of the customer were combined: The basic price stated by consumers, being interested in buying the product was 6 €. COGS are initially calculated to be 1,08 € (**Appendix 28**). The final chosen price is 4,99 €, profitable but moderate, considering that one bottle includes 20 servings of the product. A price below 6 € was chosen because of the fact that setting the price at 6 € could alienate a portion of the target who are deviating from the average. The multi-channel retailing distribution demands for a universal and maintained price. Undermining the price with partners such as Fressnapf, especially in the early launch phase, can lead to lack of sup-

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<sup>21</sup> Euromonitor (2014)

<sup>22</sup> Cost of goods sold

port or even delisting.

#### **6.4 Promotion (communication campaign)**

As mentioned before, “the first company into the mind of the people will make the race”. Thus, water-enhancer for dogs have to be strongly associated and recognized with VitaStream. However, being a start-up limits the marketing budget and thus the possibility to support the product launch for example with a 360-degree campaign, including TV spots, promotion tours, etc. Consequently, VitaStream will engage in an online performance marketing campaign during the launching phase. Being present in social networks and blogs, investing in Google Adwords as well as an interactive and user-friendly website with a respective online-shop, will be the key to awareness and recognition, hence success. Research has revealed the fact that dog-owners feel the urge to share their needs, feelings and emotions with dog-owner communities. On Facebook uncountable dog groups exist, in which owners are actively sharing pictures of their dogs and asking for recommendation on treatments or nutrition. The campaign will include Google Adwords, Facebook and Instagram. With respect to Google Adwords rather low priced terms such as “water for dog” or “dog beverage” will be bought initially. In a more mature phase of the brand, with increased budget, more specific and thus more expensive words such as “natural healthy water for dogs” or “natural water supplement for dogs” can be added. Additionally, with two differing Facebook ads (Awareness and Conversion) the Facebook page as well as sales will be boosted. Sales will be also triggered with a direct link to the online point-of-sales, implemented on the Facebook page. To foster an even stronger community, (video-) bloggers will be used to promote and endorse the benefits of the product. In order to reach the ambitious goals it will be crucial in terms of customer relationship management to stay in a close and emotional contact to the consumer, to foster an open dialogue which makes dog owners listened to and incorporates

them into further product developments.

Additionally after the first two quarters the promotion attempts will be spread to offline trade fairs, radio spots and marketing events to create awareness for the launch of the B2B business. With the offline sales launch, free product-trials will be distributed to dog-owners, with the distinctive aim to raise the consumer's awareness for a dog beverage segment and to make him/her try and experience the product. Being such an innovative product, consumers have to explore its benefits, touch it and see it being loved/valued by the dog. Samples will be distributed through two ways: (1) veterinarians: consumers will be educated about the critical need of water supply and the credibility of the product is enhanced by the promotion of an "authority". (2) Cross-selling: The water-enhancer will be attached to the market leader product of a different dog care category, e.g. shampoo and cleanser, which leads to a great number of dog-owners being acquainted with the product. This way of sampling is clearly cheaper than sending out promoting teams. Moreover, cross selling is a win-win situation for both brands. Finally the release of a research study, on animal and especially dog hydration and financed by VitaStream, being published some weeks prior to the first product launch will underline the need of the beverage segment for dogs and products such as a water-enhancer for dog water.

## **7 Finance**

The financial planning for VitaStream was conducted on the basis of a 5-year Profit&Loss statement with the corresponding Cash-Flow projections and a respective balance sheet (assuming 100% retention of earnings) based on a seed financing of 100.000 € by "Family&Friends" and a Series A investment of 250.000 for the second year (B2B roll-out) by a strategic investor (**Appendix 29 & 30**). In order to keep the forecast as realistic as possible



all assumptions are grounded on indicators drawn from research and all necessary cost factors have been extensively analysed through comparable e-commerce business models with a migration into offline-sales as part of a multi-channel sales strategy<sup>23</sup>. Furthermore achievable economies of scale are already integrated into the 5-year-plan, most cost positions showing a progressive development over the anticipated years. All essential financial corner stones will be highlighted in this chapter. For a more explicit view please refer to the detailed excel model in the appendix or the additional excel file.

**Production Costs:** The final product, ready to be shipped from the distribution centre, has initial COGS<sup>24</sup> of 1,08 €. It is composed of three main elements being (1) the concentrate supply by Döhler, (2) the packaging material supply and bottling services by HFPG Europe as well as (3) the Shipping & Handling costs arising from the usage of freight companies & parcel services for B2C/B2B sales. The concentrate supply is initially priced at 0,50€ per unit<sup>25</sup> and decreasing to a level of 0,45€ per unit in Q4 2016 when certain quarterly order quantities are surpassed. The same logic applies to the packaging material & bottling services that decrease from 0,58 € per unit to 0,53 € in the same period. The shipment costs have to be differentiated between the B2C and B2B segment in order to reflect the different distribution models in those markets. For the B2C market the shipment cost for Europe provided by DHL parcel services are initially 5,50 € per parcel and are constantly decreasing towards 4 € per parcel due to more attractive price schemes kicking-in, when reaching monthly parcel numbers to qualify as a DHL key accounts. The pick&pack costs show an opposing movement from 0,10 € to 0,14 € in 2017, because of an anticipated positive movement in the average shopping cart size. The B2B channel is based on the delivery of ready-for-sale trays of LWEs

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<sup>23</sup> Such as „MyMuesli“ or „JustSpices“

<sup>24</sup> Cost of Goods Sold

<sup>25</sup> 1 unit = 1 Liquid Water Enhancer

as palletized goods to central distribution centres of the Fressnapf chain for average costs of 150 € per palet (=250 trays; 1 tray=10 LWE → 2500 LWE) It is not subject to economies of sales due to an initial assignment of a preferred freight logistic company by the retailer for a fixed fee per palet (**Appendix 31**).

**Personel and other fixed costs:** VitaStream will start with one Managing Director and one Marketing Manager for the first two quarters in order to adhere to the limited financial resources in the start-up phase. The team will consistently grow alongside with increasing sales - adding necessary functions such as Customer care, IT, controlling and a sales/business development – eventually leading to a team of 14 employees. All salaries are subject to annual growth factors. The personel costs for the launching year are around 20.000 €. Other fixed costs represent all non-variable marketing, rental, maintenance, consulting, legal and travel costs. Especially the non-variable marketing costs represent a great cost factor in 2016. For a successful B2B rollout with Fressnapf, high marketing investments are indispensable to reach the stated objectives of awareness and recognition, leading to purchases in the store. Thus, in 2016 the marketing costs will be 260.000 €, including radio spots, POS marketing, trade fairs and print ads (**Appendix 32**).

**Sales B2C:** In a first step, the water-enhancer will be only available online, through the company's own direct online-shop, which will be promoted with online performance marketing. The following metrics were taken into consideration and matched with the indicators drawn from the quantitative research in order to authentically forecast B2C sales. As described earlier the product will initially be sold at a price of 4,99 €. In the upcoming years the price will decrease to an average price of 4,00 €, indicated by the introduction of bundling offers leading to an increasing shopping cart quota. Hence, the average shopping cart in number of

LWE will increase from 3,00 to 4,00 by 2017. Through the optimization of the performance marketing the metrics will reach a rather steady phase in 2017. Other key metrics, such as CPA<sup>26</sup>, share of returning customers and the average re-orders in quarters<sup>27</sup> are the fundament for the customer base and performance marketing calculations. Within the first two years, the CPA is anticipated to grow from 5 € to 10 €, due to the usage of the low-hanging fruit strategy<sup>28</sup> to quickly boost sales at the beginning. The average re-orders will increase from 1,5 to 1,0 (in quarters) due to special promotions and bundling offers. In combination with an increasing size of the average shopping cart, this effect will offset the increased CPA rates. Simultaneously, the share of returning customers will stay constantly at 25%, which corresponds to the average approval rates arising from the quantitative study. For the creation of the customer base, VitaStream will start with an online marketing budget of 5.000 and 10.000 € for the remaining 2015 quarters, before increasing it moderately, but constantly – eventually reaching a budget of 100.000 € from in 2020. Based on this, a persistent growth of the online customer base can be predicted (**Appendix 33**).

**Sales B2B:** The key metrics for the B2B market forecasts are: Number of outlets, growth rates of outlets, average purchase per outlet per day as well as the average opening days per quarter. Two quarters after the B2C launch, the product will be available in the offline retail as well. In Q1 & Q2 2016, the initial test phase of the B2B business, VitaStream will be listed in 150 Fressnapf stores, before being distributed to 284 outlets in the ramp-out phase for the complete rollout in Q4 2016. By Q2 2017, in case of a successful testing phase, VitaStream will obtain a 100% penetration in the Fressnapf universe, being listed in all 1350

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<sup>26</sup> Cost Per Acquisition

<sup>27</sup> 1,0 meaning 1 order every quarter, whereas 1,25 implies an average of 1,25 re-orders per quarter

<sup>28</sup> Buying rather cheap ad words to tackle main target group in the beginning before investing into more expensive search terms to reach new customers.

stores for which an annual growth rate of 5 % is anticipated. The product is invoiced at a net price of 2,60 by VitaStream and sold by Fressnapf at the equivalent B2C price of 4,00. Thus Fressnapf will obtain a constant retail margin of 35 %, representing a typical retail margin in the pet food segment (**Appendix 34**).

The consolidated figures on a quarterly basis indicate a first positive cash flow of 53.000 € in Q1 2017. After 2 years the initial investment of 350.000 € will be earned back, moreover the VitaStream business will not only break-even but eventually prosper with annual sales amounting to almost 7.000.000 € in 2020, representing a positive cash flows of more than 1.000.000 € in that year(**Appendix 35**).

## **8 Timing/Potential**

Looking into the future it becomes obvious that VitaStream owns great potential for its product development and prospective growth. In the 5-year expansion plan the product line will be extended, with new varieties, flavours and bundling products such as customized bowls and accessories. Furthermore the launch of a cat-water-enhancer will be a further growth prospect. Finally an international roll-out of both the dog and the cat water-enhancer will bring the company to a new level of business. As mentioned before a first extension of the product line will already happen after the first year: A “senior product”, which serves the special needs of older dogs will be launched in the middle of 2016. Another future potential is the listing in dog food superstores and retailers apart from Fressnapf (**Appendix 36**).

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## **10 Appendix**

Please see separate document.